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RUEHBR/AMEMBASSY BRASILIA 7840  
RUEHBU/AMEMBASSY BUENOS AIRES 5090  
RUEHCV/AMEMBASSY CARACAS 2320  
RUEHPE/AMEMBASSY LIMA 2429  
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RUEHMN/AMEMBASSY MONTEVIDEO 4485  
RUEHQT/AMEMBASSY QUITO 4962  
RUEHSG/AMEMBASSY SANTIAGO 9548  
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C O N F I D E N T I A L LA PAZ 000707

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STATE FOR WHA/AND  
TREASURY FOR SGOOCH  
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: DECL: 03/13/2017  
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)  
SUBJECT: HYDROCARBONS PROBLEMS ABOUND

REF: A. 2005 LA PAZ 3065  
[1](#)B. 2006 LA PAZ 1660  
[1](#)C. 2006 LA PAZ 2056  
[1](#)D. LA PAZ 387  
[1](#)E. 2006 LA PAZ 3224

Classified By: Ecopol Chief Andrew Erickson for reason 1.4 (d).

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Summary  
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[1](#)1. (C) While hydrocarbons "nationalization" remains intensely popular, GOB mismanagement of the process has taken some of the bloom off the rose in recent weeks. Erroneous versions of the new operating contracts signed in October 2006, sent by the executive to congress, were approved by congress in November. The government is now seeking to remedy these errors, but faces opposition in the congress. The opposition is asserting GOB malfeasance, although simple incompetence may be a better explanation. Meanwhile, shortages of liquefied petroleum gas (LPG), caused by insufficient production, flooded roads, refinery repairs, and subsidies, have intensified and led to blockades in several cities. The hydrocarbons superintendent resigned on March 7 due to threats against his person and lack of GOB support for the superintendency, but remains in his position pending the naming of a replacement. End summary.

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Operating Contracts Still Not in Force  
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[1](#)2. (C) The new operating contracts signed with hydrocarbons production companies in October 2006 were approved by congress in November 2006, but with significant errors (ref D). Some versions approved by congress were not the final versions signed by companies, but preliminary versions --

generally versions that were less favorable for the companies. This is the case with one of the annexes in Petrobras, Repsol, and Total's contracts. YPFB President Manuel Morales Olivera told the press that the three companies agreed on March 10 to adopt the original annex, which was erroneously approved by congress, rather than having congress approve the correct annex. The validity of that assertion is unclear. The GOB proposed a short law to amend errors in the erroneous laws that approved the contracts in November. The short law was passed by the chamber of deputies on March 14.

13. (C) The opposition has taken the opportunity to allege malfeasance on the part of the GOB and generally wreak political havoc, suggesting that the contracts signed were not good for the state and that the amount of revenue to be gained is less than what the GOB led the public to believe. Opposition deputy Tonin Franco told Emboffs on March 13 that the short law does not address the controversial issues of the contracts, such as incorrect annex versions, but only amends typographical and superficial errors. Although the lower house approved the law, according to Franco, it will be blocked in the senate, where the opposition majority is demanding clarification of the annexes and more complex issues. He added that senators had lodged an unconstitutionality complaint against the midnight session of the senate in which the contracts were initially approved (ref E). Since many senators do not recognize the validity of the initial laws approving the contracts, they would argue that it is not feasible to enact a law amending the original laws. Podemos Senator Oscar Ortiz has proposed that the contracts signed in October be revised before approval in the senate, and that approval be contract by contract rather than by one law.

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LPG Shortages Produce Protests  
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14. (C) Shortages of liquefied petroleum gas (LPG) which began in February have intensified and produced blockades in La Paz, Cochabamba, and Oruro, where it is used mainly as cooking fuel. Hydrocarbons Superintendent Mario Adrian told Emboffs on March 13 that the root cause of the problem is that demand (1,007 tons per day) is slightly above production (998 tons per day), and because of the low return for domestically-sold fuel, private companies lack incentives to invest in additional production. He lamented that the ministry is doing little to solve this problem in the long-term. The problem has worsened due to flooding which has destroyed the roads used to transport LPG, as well as because a small gas refinery in Cochabamba is being repaired. The imbalance between demand and supply is also caused by contraband -- because highly-subsidized Bolivian LPG can be sold to neighboring countries at a price four times the Bolivian price, much LPG leaves the country illegally (ref A). Adrian predicted that shortages would worsen between May and July during peak harvest times due to increased demand.

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Superintendent Resigns  
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15. (C) Adrian resigned as superintendent on March 7, but will remain in his position, as required by Bolivian law, until the government names his successor. As of March 13, he had not received a response from the GOB regarding his resignation. He explained that he resigned because the GOB does not support the superintendency, which is caught in a difficult position between the government and the private companies. The government announced in its national development plan that it would eliminate the superintendency, which is stigmatized as a "neo-liberal" institution, and create a new regulatory agency -- the National Agency of Hydrocarbons -- under the control of the hydrocarbons ministry (ref B). The new agency would have authority to monitor the entire sector, not only the downstream portion like the current superintendency. Adrian acknowledged that

the increased authority would be a positive change, but worried about the autonomy of the new agency, which he said would take months to legally organize. Adrian added that he was named as a defendant in the Iberoamerica Trading investigation (ref C) following the superintendency's denunciation that a contract signed by Bolivia's state oil company YPFB and Iberoamerica would do economic damage to the state. He said he has been threatened by others involved in the case and resigned to protect himself and his family.

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Comment  
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16. (C) The GOB's mishandling of congressional approval for the hydrocarbons contracts offers yet another worrisome signal to already skittish would-be investors. Rather than working in good faith, the GOB is seeking to use its own blunders to push the mega gas field operators Petrobras, Total, and Repsol into agreeing to harsher contract terms. The shortage of LPG and the resignation of the hydrocarbons superintendent are symptomatic of the underlying lack of investment incentives, the cost of domestic subsidies, and the failure of Bolivian legal processes to provide a stable and level playing field. End comment.  
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